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**Chile**

**Dairy and Products**

**Annual**

**2002**

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**Report Highlights:**

**Chile's dairy industry will expand again as weather has been favorable for forage production and farmers increased productivity in a response to falling prices.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Santiago [CI1], CI

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## Executive Summary

Chile's milk production is expected to increase again in 2002 (Jan-Dec) as favorable weather with sufficient precipitation in the main milk producing areas recuperated pasture production. Although weather is an important factor for pasture production, Chile's basic feed input, the outlook for the next three-to-five years will also depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Current forecast for the long term are that domestic consumption will not vary significantly from the last decade. However, in the near term, consumption could be encouraged by new promotional campaign planned producers and the industry.

## Production

### Production General

In CY2001, Chile's total milk production increased again to a new record level, after the last few years of modest declines in production. Low prices have been affecting the dairy industry, together with adverse climatic conditions in the primary dairy producing regions in the southern part of the country. However output in 2001 increased again and reached 2.19 billion liters up from 1.99 billion in 2000. Sufficient moisture and timely rain during the summer months resulted in an abundant feed supply (pasture) which allowed most producers to increase, their herds, feeding and sanitary management efficiencies, all of which contributed to expand output. Another, but smaller expansion in production is expected for 2002. Farmers are increasing efficiencies in milk production in an effort to maintain their income levels and offset falling milk prices. In the coming years milk production increases are expected to level off as Chile reaches a self sufficient level of production.

Dairy import volumes, expressed in liters of milk, were on a par with export volumes in 2001. Industry sources expect a similar scenario for 2002. Chile currently has an estimated 49,000 dairy farmers with approximately 616,000 cows in production.

Real prices paid to producers for milk in Chile have been falling slowly but steadily since 1992. These declines are mainly due to deteriorating international prices during the same period. Chile's domestic milk market is relatively open to dairy product imports and is only protected by an import duty of 7 percent. Chile's dairy producers blame the fall in prices on the international oversupply of dairy products, and on countries that support their dairy industries with large subsidies and protect their domestic markets. At the same time, prices paid to Chilean milk producers also have been affected by increased competition among dairy products and increased processing costs, has a result of continuous investments in technology to stay competitive. In order to maintain profit margins, the processing industry has lowered prices paid to milk producers.

For 2002, prices paid to milk producers during the first three months fell 10 percent, when compared to the same period last year, and are expected to fall further following the trend of international prices.

**Dairy Production**

<b>Year</b>	<b>Total Rec'd by Industry</b>	<b>Fluid Milk</b>	<b>Dry Milk</b>	<b>Butter</b>	<b>Cheese</b>	<b>Farmers Cheese</b>	<b>Yoghurt</b>	<b>Conden. Milk</b>
	(---Million Liters---)	(-----Thousand Kilograms----- -----)						
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835
1990	890	138	45,126	6,448	24,513	5,422	50,939	8,325
1991	948	135	44,307	7,279	27,178	5,342	54,379	8,803
1992	1,019	155	46,700	7,305	32,193	5,568	62,640	10,179
1993	1,121	178	51,404	7,728	36,405	6,627	66,036	9,413
1994	1,236	189	53,594	6,995	38,569	6,941	66,607	10,560
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674
1996	1,406	235	63,344	6,452	42,177	6,292	73,744	8,937
1997	1,497	271	65,726	9,582	43,712	7,106	79,423	10,219
1998	1,530	269	70,877	11,159	46,528	7,631	82,243	13,244
1999	1,470	279	60,597	11,007	44,777	7,034	100,203	15,742
2000	1,447	275	59,669	9,855	44,718	7,167	106,624	24,400
2001	1,637	291	71,464	11,836	50,417	7,150	95,249	25,418

**Source: Ministry of Agriculture**

**Trade**

Chile's dairy industry reached, for the first time in 2001, an export-import trade balance in volume. This was mainly due to significant increase in domestic milk production and a leveling off in the per capita dairy product consumption. Since a trade balance also is expected in 2002 and the coming years, industry's main objectives will be to become economically efficient in an effort to develop further the export market.

**Policy**

Although Chile bound its dairy product import duties (HS 04.02, 04.05, 04.06) at 31.5 percent in the Uruguay Round, a flat import tariff of 8 percent is applied on nearly all dairy products imported. This applied rate will be reduced to 6 percent, and stay at that level, after January 1, 2003. Additionally, a value-added tax of 18 percent is charged at the consumer level on all goods, domestic or imported.

The GOC did not renew the safeguard measures, which expired in July 2001 and added a 12 percent duty to dry milk imports. The Price Distortion Commission determined there were no reasons to renew the safeguard measures. Furthermore, as production surpluses develop in the industry high tariff protection becomes less important.

Producers and industry have agreed to form and finance an association (Promolac) with the objective of promoting domestic milk consumption. The program which started last March, will last approximately 5 years with a total budget of 1,000 million Chilean pesos (US\$1.3 million) annually. Promotion of fresh milk consumption will be mainly through TV and printed media .

## **Whole Dry Milk**

### **Production**

Close to 90 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk was larger, when compared to the previous year, due to a larger output of milk and a deterioration in the demand for other fresh dairy products, like yogurt. The country's economic slowdown is mentioned as the main factor in the weaker demand for other dairy products. For 2002, the industry does not expect whole dry milk production to expand, despite a reduction in imports and a predicted expansion in total milk production, since demand for yogurt and other fresh dairy products is expected to increase. In the long term, production increases in whole dry milk are expected to level off, as demand moves to high value dairy products as the country develops economically.

Dry milk is produced primarily in the summer months of November, December and January when domestic fluid milk production is at its peak. Chile produces dry milk from surplus milk that would not otherwise be consumed as fluid milk or used to produce other dairy products, such as cheese.

### **Consumption**

Dry milk is available for sale in practically all Chilean supermarkets and smaller grocery stores. Families that do not consume large quantities of milk, or lack refrigerators to keep UHT fresh after opening, prefer dry rather than fluid milk. Government food programs also account for a significant proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. During the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer, in order to produce dairy products which have a constant demand throughout the year.

A recent poll shows that 81 percent of households in the Santiago Metropolitan Area, consume dried milk. At higher income level there is a preference for non fat dry milk or lower-fat dry milk, as opposed to lower income households, where more whole dry milk is consumed.

## Trade

Increased domestic production of dry milk and reduced demand, resulted in fewer imports in 2001. Industry sources indicate that a further decline in imports is expected in 2002, compared to last year, as domestic production is up and consumption is down.

Chile's dry milk export markets are expected to expand in the coming years as the industry becomes more competitive. In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other countries that benefit from subsidy programs. Chile's main export markets are in Latin America, particularly Peru, Bolivia and Argentina.

## PS&D Table

PSD Table						
Country	Chile					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	12	12	13	11	14	8
Production	65	62	68	62	0	61
Intra EC Imports	0	0	0	0	0	0
Other Imports	5	4	5	3	0	0
TOTAL Imports	5	4	5	3	0	0
TOTAL SUPPLY	82	78	86	76	14	69
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	6	7	8	0	0
TOTAL Exports	5	6	7	8	0	0
Human Dom. Consumption	64	61	65	60	0	60
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	64	61	65	60	0	60
TOTAL Use	69	67	72	68	0	60
Ending Stocks	13	11	14	8	0	9
TOTAL DISTRIBUTION	82	78	86	76	0	69
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Import Trade Matrix**

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	M.T.
Imports for:	2000		2001
U.S.	0	U.S.	
Others		Others	
Argentina	3789	Argentina	4403
New Zealand	2245	Uruguay	25
Uruguay	550		
Australia	192		
Ireland	96		
Denmark	64		
Total for Others	6936		4428
Others not Listed	0		0
Grand Total	6936		4428

**Export Trade Matrix**

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	M.T.
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Colombia	1225	Colombia	1925
Bolivia	783	Venezuela	1100
Peru	140	Cuba	1077
Panama	12	Honduras	1064
Cuba	9	Bolivia	843
Aruba&Antilles	4	El Salvador	100
		Argentina	40
		Peru	37
		Guatemala	25
		Nicaragua	2
Total for Others	2173		6213
Others not Listed	0		2
Grand Total	2173		6215



## Nonfat Dry Milk

### Production

Chile's NFDM production rose slightly in 2001, as the domestic food industry increased its demand and imports fell. Production in the coming years will depend upon expected prices in the international markets and changes in food industry consumption or specific strategies from individual industries. Production is currently expected to remain steady through 2003.

### Consumption

Chile's food industry determines to a great degree the consumption level of NFDM in Chile. Leading products made from NFDM are chocolate, ice cream (Nestle and Unilever), and yogurt. The consumption rate of these products are in line with Chile's economic growth. For 2002 and beyond, utilization is expected to increase again, but at a slower rate.

### PS&D Table

PSD Table						
Country	Chile					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	4	4	4	4	3	3
Production	10	9	10	9	0	9
Intra EC Imports	0	0	0	0	0	0
Other Imports	7	6	7	5	0	5
TOTAL Imports	7	6	7	5	0	5
TOTAL SUPPLY	21	19	21	18	3	17
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	17	15	18	15	0	15

Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	17	15	18	15	0	15
TOTAL Use	17	15	18	15	0	15
Ending Stocks	4	4	3	3	0	2
TOTAL DISTRIBUTION	21	19	21	18	0	17
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Import Trade Matrix**

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Jan-Dec	Units:	M.T.
Imports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Argentina	3272	Argentina	4544
Uruguay	2325	Uruguay	1250
New Zealand	1356	New Zealand	57
Belgium	772		
Canada	700		
Australia	502		
France	182		
Germany	25		
Italy	1		
Total for Others	9135		5851
Others not Listed	0		0
Grand Total	9135		5851

